

MONTEREY COUNTY ASSESSMENT PRACTICES SURVEY

JANUARY 2003

CALIFORNIA STATE BOARD OF EQUALIZATION

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January 31, 2003

TO COUNTY ASSESSORS:

MONTEREY COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2003/006

A copy of the Monterey County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Joseph F. Pitta, Monterey County Assessor-Clerk-Recorder at the time of our fieldwork, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained in the report. This report and the county assessor's response constitute the final survey report. Pursuant to Government Code section 15646, this report is distributed to the Governor, the Attorney General, the State Legislature, and the Monterey County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The BOE's County Property Tax Division performed fieldwork for this survey from November through December 2001. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Mr. Pitta, the newly elected assessor, the Honorable Stephen L. Vagnini, and their staff for their cooperation and patience during this assessment practices survey. These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Monterey County Assessor-Clerk-Recorder's Office.¹

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increase the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Monterey County Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Joseph F. Pitta, Monterey County Assessor-Clerk-Recorder, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas. However, assessment practices survey reports also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided to promote uniform, effective, and efficient assessment practices throughout California.

¹ This report covers only the assessment functions of this office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, Revenue and Taxation Code² section 75.60 requires the BOE to certify whether the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Monterey County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Monterey County that provided information relevant to the property tax assessment program.

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the assessor's operations. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our 1997 assessment practices survey of Monterey County, we made ten recommendations to address problems we found in the assessor's policies and procedures. The assessor fully implemented six. Three recommendations have not been implemented and one no longer applies.

- Although the Monterey County assessment roll has increased over 38 percent between fiscal year 1997-98 and fiscal year 2001-02, the assessor has maintained constant staffing levels.
- Monterey County uses the Megabyte Property Tax System 2000 (Megabyte). This is a full tax-cycle database package designed to serve the county assessor, auditor, and tax collector offices.
- Administrative elements of the assessor's office, including certification of his appraisal staff, roll changes, assessment appeals, low-valued property exemptions, and the exemption program, conform to statutory requirements.
- The assessor's programs for assessing new construction, decline-in-value properties, pipeline rights-of-way, historical properties, timeshares, manufactured homes, aircraft, vessels, and animals are consistent with the requirements of property tax law.
- We found that the assessor's supplemental assessment program conforms to statutory provisions.
- The assessor's staff would benefit from a policies and procedures manual.
- The assessor's Web site contains outdated forms.
- The assessor fails to obtain fire reports from all city and county fire departments. Obtaining such reports would assist in the discovery of property eligible for disaster relief.
- In his enforcement of the racehorse in-lieu tax, the assessor does not comply with statutory record-keeping requirements.
- The assessor continues to improperly classify land improvements on California Land Conservation Act (CLCA) properties and fails to deduct a capital replacement allowance for irrigation wells.
- We found a number of unassessed properties owned by local government agencies and located outside those agencies' boundaries. These properties may be taxable.
- Although the assessor improved his possessory interest discovery program, he included an inappropriate component for inflation in his possessory interest capitalization rates.
- The assessor continues to classify structural improvements as fixtures.

- We found what appears to be double assessments of water company property.
- The assessor does not follow the valuation procedures in rule 469³ for mineral properties. Additionally, he accepts incomplete mineral production reports from taxpayers, does not apply the 463 penalty for late- or non-filed mineral property statements, and uses an outdated BOE form to collect petroleum property information.
- The assessor fails to timely complete all of his mandatory audit workload, does not obtain waivers of the statute of limitations when audits will not be completed timely, and does not use an audit checklist for every audit.
- Since the BOE adopted average index factors in AH 581, the assessor's equipment valuation factors are now appropriate. However, the assessor inappropriately applies a minimum valuation factor when valuing machinery and equipment.
- Despite the problems noted above, we found that most properties and property types are assessed correctly.
- Although we found a significant assessment problem (deficiency in mandatory audit production) as defined in rule 371, we believe that deficiency alone does not create a reasonable probability that the assessment roll would fail to meet the average quality requirements of section 75.60. Accordingly, Monterey County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order they appear in the text.

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³ All rule references are to the Property Tax Rules, Title 18, Public Revenues, California Code of Regulations, unless otherwise indicated.

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RESULTS OF THE 1997 SURVEY

Change in Ownership

The assessor failed to apply statutorily-required penalties when taxpayers did not respond to requests for change in ownership statements. The assessor now applies the statutorily-required penalties.

The assessor did not have a written policy for making cash equivalency adjustments on transfers of real property. While he still does not have a written policy, the assessor attempts to obtain financing information for all sales and makes adjustments for any unusual financing agreements. We do not repeat that recommendation in this report.

Supplemental Assessments

We found that the assessor, acting without the authority to do so, cancelled low-value supplemental assessments. The assessor now enrolls all low-value supplemental assessments.

Decline in Value

We observed that the assessor needed to be more diligent in his recognition of declining property values. We found that the assessor now actively reviews and adjusts property values to reflect current market conditions.

Taxable Possessory Interests

By failing to review interim uses of the county fairgrounds, the assessor allowed taxable possessory interests arising from those uses to escape assessment. To improve discovery of taxable possessory interests, the assessor now requests that public agencies submit the names of *all* property users. Due to the assessor's improved procedures, we do not repeat this recommendation.

California Land Conservation Act Properties

The assessor improperly classified fixed irrigation pumps, fixed booster pumps, and in-ground irrigation systems as a portion of land value. Since the assessor continues that practice, we repeat that recommendation in this report.

Tenant Improvements

The assessor failed to properly classify tenant improvements assessed on the unsecured roll. We found that the assessor continues to classify reported structural improvements as fixtures on the unsecured roll, without justification. Therefore, we repeat that recommendation.

Business Property Statement Processing

The assessor failed to screen property statements for proper signatures. The assessor now screens all business property statements.

Machinery and Equipment

We recommended that the assessor use cost index factors that relate to the specific property being appraised. With the adoption of Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581) for the 2002 lien date, this recommendation no longer applies.

Mineral Properties

We recommended that the assessor apply the valuation procedures in rule 469 to all mineral rights assessments and include essential information in the mineral property appraisal files. The assessor has improved the documentation of mineral appraisal files but still does not value mineral properties according to rule 469. We repeat the recommendation.

OVERVIEW OF MONTEREY COUNTY

Chartered in 1850, Monterey County is governed by a five-member board of supervisors. Monterey County has a population of about 400,000 and encompasses 2,126,040 acres and a water area of 287,460 acres. Monterey County is bounded by the Pacific Ocean on the west, Santa Cruz County on the north, San Benito, Fresno, and Kings counties on the east and San Luis Obispo County on the south. Monterey County has 12 incorporated cities: Carmel, Del Rey Oaks, Gonzales, Greenfield, King City, Marina, Monterey, Pacific Grove, Sand City, Seaside, Soledad, and the county seat of Salinas. The two biggest industries in Monterey County are agriculture and tourism.

ADMINISTRATION

This portion of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined the State and County Property Tax Administration Loan Program, appraiser certification, standards and quality control, assessment forms, assessment appeals, and disaster relief. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, exemptions (welfare, church, and religious), and the racehorse tax.

In 1995, the elected office of assessor merged with the elected office of county clerk-recorder. The assessor-clerk-recorder has a four-year term of office as required by the State Constitution. The court duties previously assigned to the county clerk were transferred to the superior court executive officer.

The assessor produced an assessment roll for 2001-02 totaling \$30,093,523,336, net of all exemptions on a gross budget of \$4,263,918, including PTAP funds. This figure does not include property assessed on the supplemental roll or BOE-assessed utilities. The table below details the makeup of the assessment roll over the previous five fiscal years:

Assessment Roll Totals (Net of All Exemptions)

| Fiscal Year | Unsecured | Units | Secured | Units | Total | Units |
|--------------------|------------------|--------------|------------------|--------------|------------------|--------------|
| 2001-02 | \$1,453,167,636 | 22,143 | \$28,640,355,700 | 63,159 | \$30,093,523,336 | 85,302 |
| 2000-01 | \$1,386,698,522 | 21,930 | \$25,640,550,067 | 60,972 | \$27,027,248,589 | 82,902 |
| 1999-00 | \$1,310,572,907 | 20,330 | \$23,416,020,932 | 61,410 | \$24,726,593,839 | 81,740 |
| 1998-99 | \$1,230,635,634 | 20,347 | \$21,430,193,361 | 60,450 | \$22,660,828,995 | 80,797 |
| 1997-98 | \$1,155,805,371 | 22,342 | \$20,616,233,051 | 59,480 | \$21,772,038,422 | 81,822 |

Two divisions carry out the assessment functions. The assistant assessor manages the valuation division and the administrative services officer manages the administration division. At the present time, there are 27 certified appraisers, including the assessor and assistant assessor.

State-County Property Tax Administration Loan Program

Section 95.31 established the State-County Property Tax Administration Loan Program (PTAP); this program provides state-funded loans to eligible counties for the improvement of property tax administration.⁴

If an eligible county elects to participate, the county and the State Department of Finance enter into a written contract. A PTAP loan is considered repaid if the county satisfies agreed-on performance criteria set forth in the contract. The contract provides that a county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1995-96 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding. In the paragraphs below, we briefly describe Monterey County's participation in PTAP.

Monterey County participated in the PTAP for the first time during year fiscal year 2000-01. During 2000-01, the county borrowed \$795,819. The required base funding and staffing levels for the assessor's office are \$3,084,563 and 49 positions, respectively.

The assessor used PTAP funds to streamline tax assessment efforts and increase automation within the department. The assessor has begun digital mapping of new parcels, new subdivisions, and parcel splits. In addition, funds have been used to review leased properties at a former military base for possessory interests, to reassess land use changes, and to process assessment appeals and decline-in-value appraisals.

Temporary staff has been added to assist with these efforts. PTAP funding gives the assessor the opportunity to train these new staff members without incurring additional net county cost.

The Monterey County Auditor-Controller has certified to the State Department of Finance that the county has met the contractual requirements for loan repayment.

Appraiser Certification

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Based on information obtained from the BOE training unit, the assessor and his staff possess the required certificates.

The appraisal staff consists of 27 full-time appraisers including the assessor and assistant assessor. Fifteen of the appraisal staff have advanced appraiser certificates, seven hold permanent appraiser certificates, and five hold temporary appraiser certificates.

⁴ The Property Tax Administration Loan Program expired June 30, 2001. During the time when we were performing our fieldwork for this survey, the Governor approved Chapter 521, Statutes of 2001 (AB 589). AB 589 established the Property Tax Administration Grant Program for the fiscal years 2002-03 through 2006-07. The new grant program will operate in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

Standards and Quality Control

Standards and quality control functions ensure the consistency and quality of the appraisal product or taxpayer services. Other duties of a standards and quality control unit may include training, legal interpretations, or data processing coordination.

Written valuation and review procedures are important components of an internal control system that promotes uniformity and ensures accurate assessments. An effective way to ensure appraisal consistency is to develop and maintain a current procedures manual. A procedures manual provides specific standards and uniform procedures to assist the assessor's staff in the preparation of appraisal reports and other technical work products. An up-to-date manual can help ensure that the work is consistent with approved policies and practices.

RECOMMENDATION 1: Develop and maintain a policies and procedures manual.

Although some members of the assessor's staff have developed their own written procedures, the assessor does not have a comprehensive procedure manual for the valuation and assessment of property.

We noted no obvious errors or omissions in the appraisal records. However, a reviewer has no criteria for evaluation without clear written standards for minimum documentation. Documenting proper appraisal methodology benefits the staff responsible for processing and valuing specific property types and, in the event of staff turnover, promotes proper assessment by new staff.

We recommend that the assessor develop and maintain a comprehensive policies and procedures manual for his staff.

Assessment Forms

Section 15606(d) of the Government Code requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation, including forms to be used to apply for a reduction in assessment. The BOE annually publishes Assessors' Handbook Section 222, *Standard Form List* (AH 222), which provides a listing of BOE-prescribed forms and forms recommended by the BOE's Assessment Policy and Standards Division. Generally, the assessor has the option to change the size, color, or arrangement of text on the forms but cannot add to, change, or delete specific language. The assessor may rearrange a form provided the assessor submits the rearranged form for BOE approval.

Annually, the BOE mails three checklists of BOE-prescribed forms to all assessors. The three checklists include exemption claim forms, property statements, and miscellaneous forms. The assessors must mark the checklists to indicate which forms they will use, will not use, or will rearrange and send for approval, and return the checklists to the BOE by the designated date. Final prints of all forms used by the assessor are to be submitted to the BOE by a subsequent statutory deadline.

For the year 2001-02, we found that:

- Of the 71 BOE-prescribed forms, the assessor used 59 of them.

- Of the 59 forms used, the assessor rearranged seven.
- The checklists were received timely, but five of the forms checked off as "Not Used" appear to have been used.
- The rearranged forms were received for review timely.
- The final prints were received timely.

RECOMMENDATION 2: Use only current BOE-prescribed forms.

We found that three of the BOE-prescribed forms posted on the assessor's Web site were outdated. One of the forms, *Death of Real Property Owner Change in Ownership Statement*, is a rearranged form that has not been submitted for review and approval.

In addition, we found that the assessor's mineral consultant sends a business property statement request packet to petroleum property operators that includes an unapproved BOE form. Since the assessor is requesting information as part of his business property statement request, he must use BOE-prescribed forms.

In lieu of using the business property statement, the assessor can request information subject to the provisions of section 441(d) which provides that the assessor is entitled to review and examine information held by property owners. Letter To Assessors No. 2001/47 goes into greater detail about what can and cannot be included in this type of information request.

We recommend that the assessor use only current BOE-prescribed forms.

Assessment Appeals

The assessment appeals function is required by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory references that govern county assessment appeals boards in the appeals function. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization. The BOE has adopted rules 301 through 326 to fulfill this responsibility.

In Monterey County, the assessment appeals board consists of three persons appointed by the board of supervisors. Although the assistant assessor coordinates appeals, the property appraiser who has the responsibility for appraising all property within a specific geographic area represents the assessor at the hearings. We found the number of appeals filed has been declining over the past four years with the majority of appeals either withdrawn or denied.

The table on the next page shows the breakdown of appeal findings over the last four years.

| Appeals | Total | Withdrawn | Approved | Stipulated | Denied | Previous Year's Continuations |
|---------|-------|-----------|----------|------------|--------|-------------------------------|
| 2000 | 185 | 111 | 1 | 49 | 17 | 7 |
| 1999 | 400 | 213 | 1 | 157 | 22 | 7 |
| 1998 | 258 | 176 | 2 | 66 | 14 | 0 |
| 1997 | 563 | 359 | 8 | 161 | 35 | 0 |

We found no problems with the assessor's assessment appeals program.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to an assessee whose property has been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to both. Monterey County adopted Ordinance Number 2854 in 1982 to apply to any misfortune or calamity. This ordinance enables the assessor to apply the disaster relief provisions to the 1983-84 and subsequent assessments.

The assessor processes approximately 25 disaster-relief claims a year. We reviewed property records of properties that had been damaged by fire. The assessor had noted the disaster and lowered the assessed values of these properties. We found that the assessor handled each case properly and processed mid-year tax relief for the property owners.

The assessor usually discovers calamities through newspaper articles, taxpayer notification, or field investigation. Other valuable sources of discovery available to the assessor are fire reports prepared by the various city and county fire departments.

RECOMMENDATION 3: Obtain fire reports from all local fire departments to aid in the discovery of property eligible for disaster relief.

We found that few fire departments send fire reports to the assessor. Consequently, some individual misfortunes or calamities may go unnoticed as property owners unaware of the disaster relief provisions may fail to contact the assessor. A field survey of the city fire departments of Seaside, Pacific Grove, and Monterey disclosed 20 structure fires causing damage that equaled or exceeded \$5,000. The assessor was unaware of these events.

Fire reports prepared by fire protection agencies are a valuable resource for discovering damaged or destroyed properties. In addition, these reports offer much needed information about the property damage to help the assessor maintain accurate records. Access to fire reports could result in the discovery of damage that might otherwise go unnoticed. Receiving all fire reports would permit the assessor to send disaster relief applications to property owners in a timely manner and further ensure that when property owners suffer a disaster, they receive the tax relief to which they may be entitled.

We recommend that the assessor obtain fire reports from all local fire departments to aid in his discovery of properties eligible for disaster relief.

Assessment Roll Changes

Sections 616 and 617 require the assessor to complete the local assessment roll on or before July 1 of each year and deliver it to the auditor upon completion. After delivery of the roll to the auditor, the assessor cannot change the assessment roll unless authorized by statute or by the board of supervisors. All roll changes are based on specific statutes, and the assessment roll must contain appropriate statutory references.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property (1) that was not assessed on the July 1 roll for any reason or (2) that was underassessed due to an error or omission of the assessee. The assessor is required to enroll any property escaping assessment upon discovery and notify the taxpayer of the proposed escape assessment at least 10 days prior to enrollment. A correction is any type of roll change authorized by section 4831 to an existing assessment except for underassessments caused by an error or omission of the assessee.

We reviewed the assessor's procedures and a sample of roll changes for the 2000-01 roll year. We found no problems with the assessment roll change procedures.

Exemptions

Article XIII, section 3(f) of the California Constitution exempts from property taxation buildings, the land on which they are situated, and equipment used exclusively for religious worship. The California Constitution, in section 4(b) of article XIII, authorizes the Legislature to exempt property that is used exclusively for religious, hospital, or charitable purposes, and owned by non-profit entities that are organized and operating for those purposes. California Constitution article XIII, section 5, provides that the exemption granted under section 3(f) and section 4(b) can be applied to buildings under construction and land required for their convenient use, if the intended use would qualify for exemption.

Most exemptions are administered locally by the assessor, such programs include the church, religious, disabled veterans, and homeowners' exemptions. The assessor processed the following exemptions for the 2001-02 assessment roll:

| Exemption | Number of parcels with Exemption | Exempt Value |
|-------------------|---|---------------------|
| Church | 6 | \$1,246,000 |
| Religious | 230 | \$105,738,000 |
| Disabled Veterans | 753 | \$55,605,000 |
| Welfare | 313 | \$783,389,000 |
| Homeowners' | 50,610 | \$354,021,000 |

In addition, we reviewed the assessor's procedures for handling low-valued properties. The county does not have a low-valued property exemption ordinance. We found that the assessor is correctly enrolling low-valued properties.

We found that the assessor properly administers his exemption program.

Racehorse Tax

Article XIII of the California Constitution provides that all property, unless specifically exempted, is taxable. Several categories of animals have been exempted from taxation, as provided in the Revenue and Taxation Code. For example, pets are exempt under section 224, and animals held as business inventory are exempt under section 219. Rule 133 provides that the inventory exemption extends to animals used for the management of livestock.

However, racehorses domiciled in California are subject to an annual tax in lieu of the ad valorem property tax. The provisions of this tax are contained in sections 5701 through 5790. Rules 1045 and 1046 prescribe specific procedures and forms to be used in the administration of the annual racehorse tax.

The assessor's responsibilities relating to the administration of the annual racehorse tax are the distribution of forms, retention of reports, and the auditing of certain accounts. Rule 1045(a)(2) requires the assessor to furnish prescribed forms for reporting the in-lieu tax due and for reporting the names of persons whose racehorses are boarded with others.

The assessor has identified 13 racehorses in Monterey County. To assist in his discovery of racehorses, the assessor annually receives a list of racehorse owners from the California Horse Racing Board. He also reviews listings from the local county telephone book for racehorses, show horses, and boarding locations. After discovery, the assessor mails racehorse and show horse tax returns, BOE-571-J1 or BOE-571-F2, as appropriate, to the owners.

Although the assessor furnishes assesseees with the appropriate tax returns, he fails to meet the record keeping requirement established by rule 1045.

RECOMMENDATION 4: Request that the county tax collector forward the assessor's copy of the annual racehorse tax returns as required by rule 1045(b).

The assessor correctly mails the annual racehorse tax returns to the racehorse owners within Monterey County and the racehorse owners file the tax returns with the tax payments with the county tax collector. However, we found that the county tax collector does not forward a copy of the annual racehorse tax return to the assessor.

Rule 1045(b) requires the tax collector to forward to the assessor and the auditor copies of each return within 15 days of receipt. In addition, rule 1045(a)(2) requires the assessor to retain a copy of all tax returns for a period of five years from the date the return became due. Failure to retain completed racehorse tax returns prevents the assessor from determining whether certain accounts require an audit pursuant to rule 1045(a)(3).

To permit the timely audit of annual racehorse tax returns, we recommend the assessor request that the county tax collector forward the assessor's copy of the racehorse tax return as required by rule 1045(b).

ASSESSMENT OF REAL PROPERTY

The assessor's staff assigned to the real property valuation division consists of 21 employees, including a supervising appraiser and five technical support staff. The assessor's real property assessment program includes the following elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual revaluation of certain properties that are subject to special assessment procedures, such as land subject to California Land Conservation Act contracts and taxable government-owned land.
- Annual review of properties experiencing declines in value.

Change in Ownership

One of the assessor's duties is to identify and value real property that has changed ownership. Section 60 defines change in ownership as the transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest.

Sections 62 through 69.5 exclude certain transfers from the definition of change in ownership. Exclusions include, but are not limited to, interspousal transfers, qualifying transfers between parents and children, and property acquired as a replacement for property taken by eminent domain.

The assessor discovers most changes in ownership through deeds recorded at the county recorder's office. The assessor reviews recorded deeds to determine whether the deed evidences a change in ownership.

For the 1999 lien date, the assessor screened 96,806 recorded documents and coded 19,121 for review as potential changes in ownership. For the 2000 lien date, 96,041 documents were received and 18,405 were coded for review; for the 2001 lien date, approximately 100,000 documents were received with comparable numbers of deeds coded for review.

Since our last survey, the assessor has implemented our recommendation that he apply the penalty for the failure to file or late filing of the change in ownership statement. In addition, the assessor requests financing information and makes cash equivalency adjustments where appropriate.

We found that the assessor has an effective deed processing program to aid his discovery of changes in ownership.

Legal Entity Ownership Program

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Discovery of such a change in ownership is difficult because ordinarily there is no recorded notice of the transfer. However, the BOE's Legal Entity Ownership Program (LEOP) discovers unrecorded changes that occur by stock acquisitions and other ownership transfers through responses to questions appearing on corporate and partnership tax returns filed with the Franchise Tax Board.

LEOP transmits to county assessors listings of legal entities that have reported a change in control. The listings include the names of acquiring entities, the date stock or partnership interests transferred, the parcels involved, and whether the property was owned or leased on the transfer dates.

We found no errors pertaining to identification and processing of changes in control.

Parent/Child Transfers and Base Year Value Transfers

Section 63.1 excludes from the definition of change in ownership the purchase or transfer, on or after November 6, 1986, of the principal residence and the first \$1 million of other real property between parents and children, upon submission of a timely claim. Under narrow circumstances the exclusion also applies to qualifying transfers between grandparents and grandchildren.

Section 69.5 allows qualified homeowners 55 years of age or older to transfer the base-year value of their principal residence to a replacement dwelling of equal or lesser value within the same county provided a claim is timely filed. Such claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling.

Subsequent to its initial enactment, section 69.5 was revised to include base year value transfers by qualified applicants who are severely and permanently disabled and to allow counties to adopt an ordinance to permit intercounty base year value transfers. Monterey County implemented such an ordinance on April 9, 1996. However, due to the county's projected loss of \$765,000 in annual tax revenue, the board of supervisors allowed the ordinance to expire effective January 9, 2001.

For 2000-01, the assessor processed 1,310 section 63.1 claims and 106 section 69.5 claims. For 2001-02, a total of 1,152 section 63.1 claims and 91 section 69.5 claims were processed.

We found the assessor's procedures for handling exclusions to be consistent with the law.

New Construction

Section 70 defines "newly constructed" as any addition to real property, whether land or improvements (including fixtures), since the last lien date, and any alteration to land or to any improvement (including fixtures) since the last lien date which constitutes a major rehabilitation thereof, or which converts the property to a different use. When real property undergoes new construction, section 71 requires the assessor to determine the added value of the improvements upon completion, or on each lien date while construction is in progress. The value upon

completion is established as a new base year value for those specific improvements and is added to the property's existing base year value. When new construction replaces existing improvements, the value attributable to those replaced improvements is deducted from the property's base year value.

Discovery

The primary sources for the discovery of new construction in Monterey County are the building permits issued by various local government agencies. Permits are received from 13 permit-issuing agencies. Once a month, all of these agencies send copies of all new construction permits to the assessor. Staff appraisers may also discover new construction activity while canvassing their assigned areas of the county. In addition, business property statements are reviewed for additions and construction activity. The assessor also utilizes aerial photographs and news reports in his discovery program.

Permit Processing

The assessor follows specific procedures to ensure proper processing of all permits. An assessment clerk processes each building permit received. Permit information is entered into the computerized new construction system. New construction events are coordinated with other items to be worked, such as changes in ownership. The assessor's permit processing procedures are thorough and provide for effective retrieval of information upon which an appraiser may make informed decisions.

Tracking

The assessor has a computerized system that tracks new construction projects. When new construction is completed and valued, a base year is established for the newly constructed portion of the property. Copies of all permits are filed in the appraisal folders for future reference. The appraisal files are well documented as to the action taken by the real property section.

Overall, we found the assessor's permit tracking and control procedures to be effective.

Valuation

The assessor uses BOE cost manuals to estimate the value of rural and residential new construction. He also uses historical cost data when available. For commercial properties, the assessor uses market costs and published cost data.

The assessor worked 1,137 permits in calendar year 2000, 707 in 1999, 847 in 1998, 830 in 1997, and 758 in 1996. The assessor's permit program is well coordinated and the procedures are well documented. The assessor has an effective new construction valuation program.

Declines in Value

Section 51 requires that the assessor value real property at the lower of its factored base year value (FBYV) or current market value as defined in section 110. When a property's current

market value falls below its FBV, the lower value must be enrolled as the taxable value for the year of decline.

For residential properties, the assessor discovers most declines in value as the result of taxpayer requests for review. An exception occurs when an appraisal of a residence in a homogeneous neighborhood indicates that market values have declined below the FBV. In this instance, the assessor will review the values of all residences in that subdivision.

The assessor actively studies real estate markets for industrial and agricultural properties to determine whether market values have dropped, and whether the assessed values for these types of properties should be reviewed for possible declines in value. Due to the relatively small number of decline-in-value properties in Monterey County, assessed values are reviewed on a case-by-case basis rather than as part of a mass appraisal program.

Due to a strengthening of the local real estate market, the number of properties experiencing a decline in value below their FBV has dropped significantly, as indicated by the following table. For 2001-02, over 60 percent of the properties enrolled at less than FBV were timeshares.

| Assessment Year | No. of Properties |
|-----------------|-------------------|
| 2001-02 | 1,843 |
| 2000-01 | 6,000 |
| 1999-00 | 9,800 |
| 1998-99 | 12,000 |

All properties experiencing declines in value are tracked in the assessor's computer system and coded so that the annual inflation factor will not be applied. The property records of these properties are tagged, and the files within each map book are grouped together so they can be easily identified for annual review.

We found that the assessor annually reviews and adjusts parcels receiving decline-in-value assessments as required by section 51.

Supplemental Assessments

Section 75.10 requires the assessor to appraise property changing ownership or any new construction at its full cash value on the date the change in ownership occurs or the new construction is completed. This new value is the base year value for the property that changed ownership or was newly constructed. Section 75.11 requires the assessor to enroll a supplemental assessment for the difference between this new base year value and the taxable value on the current roll.

Section 75.55(b) allows the county board of supervisors to adopt an ordinance authorizing the assessor to cancel small supplemental assessments producing less than \$20 in taxes, or \$50 in taxes in the case of eligible manufactured home accessories. Monterey County has not adopted such an ordinance.

We reviewed a number of supplemental assessments for prorating, tax bill amounts, time periods, and ownership tracking. No discrepancies were noted. The assessor's supplemental assessment program is accurate and complies with applicable provisions of law.

California Land Conservation Act Property

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their lands. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use income (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 421 through 430.5 prescribe the guidelines for assessing land subject to agricultural preserve contracts.

For 2001-02, Monterey County had a total of 740,664 acres under contract with a total assessed value of \$616,160,399 (excluding properties in nonrenewal status). There were 418 CLCA contracts covering 3,056 parcels. Eleven contracts covering 37 parcels are in nonrenewal. There are 98 parcels under 35 contracts, covering 12,946 prime acres, in the Farmland Security Zone Program with a total assessed value of \$69,539,729. In addition, Monterey County has 17 parcels (3,405 acres) in seven scenic easement contracts, with a total assessed value for land and improvements of \$3,104,886. Properties under CLCA contract consist primarily of 415,387 acres of grazing land, 229,664 acres of grazing/dry farm, and 45,008 acres of vineyards/orchards.

The CLCA assessment program is computerized. Annually, the computer program calculates the restricted value and compares the restricted values with the factored base year value and the current market value to determine the lowest value for enrollment. The current market value is rarely the lowest value indicator and is presumed to set the upper limit of value. In addition, for restricted properties subject to nonrenewal, the computer program calculates the nonrenewal value and compare that value with the factored base year value, and current market value.

Incorporated in the computer program is the capitalization rate used to convert the income into a value. This rate consist of the interest component which is announced by the BOE each year and the risk component. The assessor's risk component is based on soil quality and land use. Risk rates of 0.5%, 2.0%, and 3.0% are used for prime farmland under the Farmland Security Zone and for irrigated row cropland. For all other land use, the risk rate is 1.0%.

Classification

RECOMMENDATION 5: Classify fixed irrigation pumps, fixed booster pumps, and in-ground irrigation systems as improvements.

In our previous survey, we recommended that the assessor enroll fixed irrigation pumps, fixed booster pumps, and in-ground irrigation systems as improvements. We found that the assessor continues to treat existing, replacement, and new irrigation systems as components of irrigated land value. On new and replacement irrigation systems, however, the assessor estimates a base year value for possible future reclassification to improvements.

Irrigation improvements (e.g., fixed pumps, permanently installed pipelines, non-earthen dams) are properly defined and classified as improvements. Rules 121 through 124 contain the criteria for classification of land, improvements, fixtures, and personal property. These rules provide examples of items appropriately classified as land or improvements. For example, wells (hole, casing, and gravel pack) are classified as land, and pumps (fixed), motors, underground distribution systems, and concrete lined ditches should be classified as improvements.

We recommend the assessor classify all irrigation systems and wells in a manner consistent with regulatory provisions.

Wells

RECOMMENDATION 6: Deduct a capital replacement allowance for irrigation wells when appraising land restricted under CLCA contracts.

We found that the assessor does not allow for a return of irrigation well investments as an expense to be deducted from gross income to land, as required by section 423. The assessor, however correctly includes the return on the well in the restricted valuation of the land.

Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*, pages II-20 to II-21, provides that the assessor should deduct a charge for a return on and of the value of improvements from the income stream prior to capitalizing the market income into value. However, wells are classified as land for property tax purposes and return on investment is included in the land capitalization rate. Nonetheless, they are a wasting asset, and an allowance for capital replacement (return of) must be subtracted from the income stream. The assessor's practice could result in over- or underassessments of wells on restricted land.

We recommend the assessor deduct a capital replacement allowance for irrigation wells from gross income to land.

Land Charge

RECOMMENDATION 7: Use the correct land charge when valuing living improvements on CLCA properties.

We found several instances where the assessor used an incorrect land charge when calculating the values of living improvements.

To determine the net tree and vine income to be capitalized, the appraiser must deduct a land charge from the gross income. We found in a number of cases that the land charge the assessor deducted when valuing the living improvements is not the same rent used in valuing the land being appraised. In addition, there was no documentation supporting the land charge used. An incorrect deduction of the land charge could result in over- or underassessments of vineyards or orchards.

We recommend the assessor ensure that the correct land charges are used to arrive at the value of living improvement.

Irrigation Improvements

RECOMMENDATION 8: Deduct an appropriate charge for income generated by irrigation improvements when calculating CLCA land values.

We found the assessor deducts a fixed \$100 charge from the income stream for the irrigation improvements in all vineyards and orchards prior to capitalizing the income into value. This practice does not appropriately account for the value of the irrigation improvements.

The appropriate method of determining the income attributable to nonliving improvements (i.e., irrigation systems, trellising) is to multiply the current market value of the improvement by a capitalization rate. Using a standard charge does not reflect the value contribution of the nonliving improvements in the income to be capitalized.

We recommend the assessor adjust CLCA gross income by an appropriate amount for the income generated by irrigation improvements.

Taxable Government-Owned Property

Article XIII, sections 3 and 11 of the California Constitution exempt from taxation property owned by local government, except lands and the improvements thereon that are located outside the entities' boundaries and that were subject to taxation at the time of acquisition. Taxable government-owned property is frequently referred to as Section 11 property because it must be assessed in accordance with Article XIII, section 11. The taxable value of the land must be the lowest of (1) the current fair market value, (2) the factored base year value, or (3) the 1967 assessed value adjusted by a factor set forth in section 11 and supplied annually by the BOE.

Improvements that were taxable when acquired by the government agency, or their replacements, must be assessed at the lowest of (1) their current fair market values, (2) their factored base year values, or (3) the highest values ever used for taxation for the replaced improvements. Except for replacements, improvements newly constructed subsequent to acquisition are exempt.

The assessor enrolled 26 government-owned properties with a total assessed value of \$1,632,994 for 2001-02. One staff member is responsible for identifying and valuing these properties.

Discovery

To determine which government-owned properties are taxable, the assessor compares the map and book numbers in which government-owned properties are located with the map and book numbers in which each government agency has taxing jurisdiction.

RECOMMENDATION 9: Review properties owned by local government agencies to determine their taxability.

On the 2000 assessment roll, we found nine parcels owned by government agencies that were located outside those agencies' boundaries. These properties may be escaping assessment as Section 11 properties. If the assessor confirms that these government-owned properties are located outside the agencies' boundaries and the properties were taxable when acquired, they

should be assessed in accordance with section 11. In addition, we discovered one government-owned parcel that is assessed but appears to be located within the boundaries of the agency that owns it, and would therefore be exempt.

We recommend that the assessor review all properties owned by government agencies to determine their taxability.

Taxable Possessory Interests

A taxable possessory interest exists whenever a private possessor has the exclusive right to the beneficial use of real property owned by a public agency. Possessory interest assessments capture the value of a private possessor's right to use public property. To qualify as a taxable possessory interest, the right of possession must be independent, exclusive, durable, and provide private benefit to the possessor.

One appraiser is responsible for valuing all taxable possessory interests in Monterey County. For the 2001 lien date, the assessor enrolled 1,920 possessory interests with a total assessed value of \$273,609,208.

To assist in the discovery of possessory interests, the assessor annually requests information on all newly created and existing possessory interests from government agencies owning property within Monterey County. These requests for information are made in early December, and roughly 90 percent of the agencies comply by the following February. Follow-up telephone calls help the assessor to obtain additional information and, when necessary, the staff performs field inspections. This discovery program has proven effective by adding between 80 and 100 possessory interests to the assessment roll for 2001-02.

RECOMMENDATION 10: Do not include an inflation factor when developing possessory interest capitalization rates.

We found that the assessor inappropriately includes a separate inflation component in the possessory interest capitalization rate. In one example, we found that the assessor added an inflation rate of 5 percent to the other components of a capitalization rate to yield a total capitalization rate of 15 percent.

An inflation rate is not an appropriate component of a possessory interest capitalization rate, since inflation is already taken into account in the rates derived from the market. Adding a separate component for inflation results in a higher capitalization rate and, thus, a lower value indicator.

This procedure undervalues possessory interests. Eliminating the redundant inflation component from the discount rates will result in more accurate possessory interest assessments.

We recommend the assessor value taxable possessory interests without including an inflation factor in the capitalization rates.

Historical Property

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with a local government restricting the use of that property in exchange for favorable property tax assessment. Government Code section 50280.1 requires that in order for a property to be eligible for such a contract, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Sections 439 through 439.4 promote the preservation, renovation, and maintenance of historical properties throughout California by providing a property tax incentive (via a special valuation formula) for owners of these properties.

Historical properties are assessed annually at the lowest of their factored base year value, current market value, or restricted value. Further, when valuing enforceably restricted historic properties, section 439.2 prohibits the assessor from considering comparable sales data and requires that the restricted value be determined using the income approach.

Monterey County has three historical properties on the assessment roll with a total assessed value of \$547,180. We found that the assessor values and enrolls those properties as prescribed by statute. Appraisal files contain copies of the contracts with the local governments, income data, worksheets, and appropriate ordinances establishing a historical preservation district and the historical preservation zone. Historic properties in Monterey County are assessed correctly.

Leasehold Improvements

Commercial, industrial, and other income producing properties require regular monitoring by assessors. Changes in tenancies often result in assessable new construction in the form of new leasehold improvements. Leasehold improvements may be properly classified as either structures or fixtures.

When new construction by a tenant adds value to a property, the assessor must review those changes and reflect them in the property's assessed value. Attempts to discover this form of new construction include identifying building permits for leasehold improvements, sending new construction questionnaires to tenants, and examining rent rolls to look for tenant changes and rent changes. The business property statement, an annual filing required of many business owners, is also a useful source for discovering tenant improvements.

RECOMMENDATION 11: Properly classify leasehold improvements.

We found several properties where the assessor classified structural improvements as fixtures on the unsecured roll without justification. We also found this problem during our prior survey.

The assessor should determine whether leasehold improvements are structures, fixtures, or non-assessable maintenance and repairs. Proper classification of leasehold improvements is important because fixtures receive different tax treatment from structures. First, fixtures are a separate appraisal unit when measuring declines in value. Second, in most cases, section 75.5 provides that fixtures are not subject to supplemental assessments. Lastly, section 469 provides that

fixtures and personal property are components in the value criteria for purposes of determining whether an account is subject to a mandatory audit.

We recommend that the assessor correctly classify leasehold improvements.

Timeshares

Timeshare interests are the rights to use real property for an interval of time. Section 998 provides that the taxable value of a timeshare estate shall be determined by finding the real property value of the interest involved. Such a value must exclude the value of any non-real property items, such as vacation exchange rights, vacation conveniences, services, and club memberships. For 2001-02, the assessor enrolled 1,548 timeshare assessments with a combined assessed value of \$6,863,117.

Timeshares in Monterey County are located in two developments in Pacific Grove. The appraiser responsible for these two complexes maintains an ongoing database for the sales of these interests and monitors the values of the two projects.

We found timeshare assessment procedures to be reasonable and timeshares to be properly assessed.

Water Company Property

Water company property on the local assessment roll may be owned by municipal water systems, private for-profit water companies regulated by the California Public Utilities Commission (CPUC), private water systems not regulated by the CPUC, or mutual water associations. Each type of company raises different assessment issues. The property of a municipal water company system is taxable only if the property is located outside the agency's boundaries. All other water company property is taxable.

The assessor enrolled real property owned by water companies at a total assessed value of \$112,772,717 for 2001-02. The bulk of this value was attributable to the eight regulated water companies in Monterey County. The CPUC regulates the rates charged by these companies, limiting profits to a return based on the companies' outstanding investments. One appraiser is responsible for valuing regulated water companies, while other appraisers value the mutual water companies located within their respective geographic work areas. The assessor values water companies regulated by the CPUC by the cost approach based on information provided in the companies' annual reports to the CPUC.

RECOMMENDATION 12: Review all water company properties for potential double assessments.

We found a water company that supplies irrigation water exclusively to ten agricultural parcels. For 2001-02, the water company's land and most of its improvements were still separately assessed. However, it appears that the assessed value of this company's real property should have been minimal or zero.

We recommend that the assessor review the assessments on all mutual water company properties.

Mining Property

Monterey County has one limestone and nine sand and gravel mining operations. One staff appraiser is assigned to the appraisal of mining properties.

In our prior survey, we recommended that the assessor assess mineral properties according to rule 469 and improve the documentation of the appraisal. The assessor has improved the documentation of mineral property appraisals but still does not assess mineral properties according to rule 469. Therefore, we repeat that recommendation.

RECOMMENDATION 13: Assess all mineral properties in a manner consistent with rule 469(e)(1)(B).

We found that the assessor does not consider additional new reserves when deriving the adjusted base year values of mineral properties located in streams. According to the assessor, reserves in stream operations are replenished each year; hence, the assessor keeps the initial reported reserve estimate constant.

Rule 469(e)(1)(B) provides that increases in proved reserves that occur following commencement of production and that are caused by changed physical, technological, or economic conditions constitute additions to the mineral rights which shall be assessed on the regular roll as of the lien date following the date they become proved reserves. The increased quantity of proved reserves shall be used to establish the added value, which shall be added to the factored base year value of the reserves remaining from prior years as the separate base year value of the addition.

In stream operations, while the stream could be replenishing any depleted reserve, the rate of this replacement may not be equal to the rate of production. Also, the current unit price of any additional reserve may not be the same as that of the prior year's reserve. Since it is sometimes difficult to determine the rate of replenishment, the common practice is to assume that it is equal to the rate of production, i.e., the quantity of the new reserve. However, because the unit price of the new reserve is always the current market price, it is possible that there is a difference in the unit prices between the new reserves and the prior year's reserves. Not considering the differences in unit prices could significantly reduce or increase the value of the mineral property.

We recommend that the assessor assess all mineral properties in a manner consistent with rule 469(e)(1)(B).

RECOMMENDATION 14: Return incomplete mineral property statements to taxpayers.

We found that some of the annual production reports (Form BOE-560-A) lack essential information, such as the production rates, reserve estimate, year of depletion of reserves, and statement of last calendar year's operating costs. This information is necessary for proper valuation of mineral properties.

Section 441(d) requires every person to make available to the assessor for examination information or records regarding his or her property or any other personal property located on the premises he or she owns or controls. This information includes details of property acquisition, transactions, construction and development costs, rental income, and other data relevant to the determination of an estimate of value. Also, Section 470(a) requires taxpayers to make available to the assessor true copies of business records relevant to the amount, cost, and value of the property he or she owns or controls. These sections authorize the assessor to obtain all the information necessary to properly assess any mineral property. Without this information, the base year value determined may not reflect the full value or fair market value of the mineral property involved. Also, without this information, the assessor cannot properly assess mineral properties or discover escape assessments or errors during an audit.

We recommend the assessor return incomplete property statements to taxpayers.

RECOMMENDATION 15: Apply the 10 percent penalty provided by section 463 for late or non-filed annual property statements and production report.

We found situations where, although the taxpayer did not return the annual mineral production report and property statement, the assessor did not add the statutorily-required 10 percent penalty to the assessed value. In one instance, the taxpayer did not respond to several requests made by the assessor.

Section 463 provides that if any person who is required by law, or is requested by the assessor, to make an annual property statement fails to file the statement within the time limit specified by section 441 a penalty of 10 percent of the assessed value of the unreported taxable tangible property of that person placed on the current roll shall be added to the assessment made on the current roll. Section 441(b) requires that the penalty be applied if the statement is not filed by May 7th.

To comply with the provisions of sections 463 and 441, the assessor must apply the 10 percent penalty to any assessment when a property owner does not file, or files a late property statement. We recommend that the assessor apply the 10 percent penalty for late filing or non-filing of annual production reports and property statements.

Petroleum Property

Monterey County has three oil and gas producing properties that produce 1.5 percent of the state's petroleum output from over 50 leases. The assessor has contracted with a mineral consultant to assist in valuing the petroleum properties. When the mineral consultant sends the business property statement packet to the petroleum property operators, he included an unapproved BOE form. We made a recommendation concerning this form in the Assessment Forms section of this report.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional

authority (*Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42). While the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run are to be locally assessed. Subsequent to this decision, the Legislature added sections 401.8 through 401.12, guiding assessors in the valuation of intercounty pipeline lands and rights-of-way.

Two intercounty pipeline owners have rights-of-way in Monterey County with a total assessed value of \$474,851. We found that intercounty pipeline rights-of-way within Monterey County are being valued in accordance with sections 401.8 through 401.12.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor processed over 12,400 annual property statements, including statements for more than 310 aircraft and 7,660 vessels, for the 2001-02 assessment roll. Six full time auditor-appraisers and four assessment clerks carry out most personal property and fixture assessment functions with assistance from other appraisers in the valuation of aircraft and other property.

Review of the business license list and BOE sales tax permits are the primary methods of discovering new businesses. Other methods of discovery include fictitious business name filings, newspaper articles and advertisements, telephone directories, referrals from other counties, and field canvassing.

For this portion of our survey report, we reviewed the assessor's audit program, the processing of property statements, and the valuation of machinery and equipment, leased equipment, and other taxable personal property including aircraft, vessels, animals, and manufactured homes.

Audit Program

Section 469 requires the assessor to audit the accounting records of any taxpayer engaged in a business, trade, or profession claiming, owning, possessing, or controlling business tangible personal property and trade fixtures with a full value of \$400,000 or more. Rule 192 clarifies the statute by requiring that the \$400,000 full value be reached or exceeded for each of four consecutive lien dates.

A property tax audit is a means of collecting data relevant to the determination of taxability, situs, and value of business personal property. The objective of an audit is to ensure that all taxable property and related information was reported accurately by the taxpayer and that all the property reported was valued correctly by the assessor. A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by assesseees. A good audit program encourages accurate reporting and helps educate those property owners who unintentionally misreport.

Mandatory Audits

RECOMMENDATION 16: Bring the mandatory audit program to current status.

For 2000-2001, there were 456 mandatory audit accounts. Of those, 147 were due for audit in the current cycle. The assessor completed only 116 audits, obtained waivers for 20 incomplete audits, and failed to complete and obtain waivers for the remaining 11 accounts.

By failing to complete these audits in a timely manner, the assessor may have allowed taxable property to permanently escape assessment due to the expiration of the statute of limitations for enrolling escape assessments.

We recommend that the assessor bring the mandatory audits to current status.

Waivers of the Statute of Limitations

RECOMMENDATION 17: Seek waivers of the statute of limitations when audits will not be completed timely.

Of the audits the assessor could not complete for 2000-01, we found that he failed to obtain signed waivers of the statute of limitations for 11 of them. Section 532.1 allows for the extension of time when the assessee and the assessor agree in writing to extend the time allowed for making an escape assessment, correction, or claim for refund.

A signed waiver of the statute of limitations protects the legal rights of both the taxpayer and the assessor. Without the signed waiver of the statute of limitations, the taxpayer and the assessor lose their legal recourse to correct any assessment errors beyond the four-year statute of limitations. Another advantage to having a signed waiver of the statute of limitations is that it puts the taxpayer on notice that audits are to be performed. Such notice might improve the level of accuracy and completeness of the data reported on the annual business property statement.

We recommend the assessor seek a waiver of the statute of limitations in all cases where audits will not be completed within the limitations period.

Nonmandatory Audits

An audit program for accounts below the mandatory level can produce tax revenues greater than the cost of the program. Like mandatory audits, nonmandatory audits are an excellent means of increasing the effectiveness of accurate reporting, generate revenue through discovery of escape assessments, and facilitate taxpayer education in the reporting of assessable property. However, we caution the assessor not to engage in a nonmandatory audit program at the expense of failing to perform the mandatory audits required by section 469.

The assessor has an active nonmandatory audit program. The following details nonmandatory audit production.

| | Non-Mandatory Audits |
|---------|----------------------|
| 2000-01 | 23 |
| 1999-00 | 16 |
| 1998-99 | 47 |
| 1997-98 | 60 |
| 1996-97 | 105 |
| 1995-96 | 25 |

Audit Checklist

RECOMMENDATION 18: Use an audit checklist for every audit.

Frequently, we could not determine the quality of an audit because the assessor did not include audit checklists in the audits that we reviewed. We found that the assessor and his staff do not currently use an audit checklist.

A checklist can serve to remind auditor-appraisers of the various issues to research and procedures to follow during an audit. Checklists also provide reviewers with details describing the areas investigated during the course of the audit. It may also provide an outline of topics and pertinent issues covered in the audit. Without a checklist it is difficult for a reviewer to know what topics were covered during the course of the audit.

We recommend the assessor use audit checklists as an integral part of all audits.

Business Property Statement Processing

Section 441 requires each person owning taxable personal property with costs in excess of \$100,000 to file an annual business property statement with the assessor. Annual property statements form the backbone of the business property assessment program. These statements cover a wide variety of property types, including commercial, industrial, agricultural, vessels, and aircraft.

For the 2001-02 roll, the assessor's business property staff processed 12,447 property statements reporting business property, agricultural property, leased equipment, vessels, and aircraft.

We reviewed the assessor's property statement processing procedures and discovered no problems. We found that the assessor has an effective business property statement processing program.

Machinery and Equipment Valuation

The BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581), to assist assessors in the valuation of business property and trade fixtures. Price index factors measure the trended value of goods over their service lives. Percent good factors are intended to reflect the average loss in value that a commercial or industrial property will, in general, suffer over its service life. The factors are based on averages and represent a reasonable estimate of depreciation for most business property.

Valuation factors are the product of the price index factors and the percent good factors. The proper choice and application of valuation factors to historical cost produces an estimate of taxable value. The assessor produces tables of valuation factors that are based on those adopted for the 2001-02 lien date by the California Assessors' Association (CAA).

Minimum Percent Good

RECOMMENDATION 19: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended when valuing older machinery and equipment.

The assessor uses minimum valuation factors to appraise machinery and equipment. The percent good factors in AH 581 are based on the assumption that as business equipment ages, it gradually loses its ability to earn a profit for its owner. In some cases equipment wears out physically to the point where it is not economical to repair it. In other cases, the equipment may be in excellent condition physically, but new technology, a changing market relative to the type of equipment, or other factors make the equipment obsolete.

Some equipment, when no longer economical to operate, will have a salvage value, whereas other equipment will have a negative value due to the cost of disposal. The AH 581 percent good factors assume that on the average equipment will have a zero value when retired. For commercial and industrial equipment, the factors decline from 100 percent good when acquired to 1 percent good (99 percent depreciation) for equipment that has survived long past the average service life of similar equipment but is still in use.

The tables employed by the assessor use the AH 581 percent good factors except that they employ arbitrary minimum valuation factors for older equipment. This means that very old equipment that is about to be retired is valued as though it has several years of profitable service left.

There is no question that some older equipment is worth much more than 1 percent of replacement cost new, just as some newer equipment is worth substantially less than the percent good suggested by AH 581. When making appraisals of individual items of equipment, the assessor may use sales data, income data, or any other available evidence to estimate fair market value. However, when using a mass appraisal tool such as the AH 581 tables, it is important to use the tables as presented. Use of arbitrary minimum valuation factors may value some equipment correctly but will substantially overvalue most items of older equipment.

Accordingly, we recommend the assessor use the AH 581 as intended to avoid overvaluations.

Construction Machinery and Equipment

RECOMMENDATION 20: Correctly identify and assess construction machinery and equipment.

We found that the assessor inappropriately computes a valuation factor based on a weighted average of new at 75 percent and used at 25 percent for construction machinery and equipment. However, the assessor should determine whether the machinery and equipment is new or used, then apply that appropriate factor from AH 581. If there is no indication whether the equipment is new or used on the business property statement, the business property statement processor should return the statement to the taxpayer or the taxpayer's representative for clarification. Applying a single weighted factor results in inaccurate assessments.

We recommend that the assessor determine whether construction machinery and equipment is new or used before assigning a valuation factor for appraisal purposes.

Leased Equipment

The responsibilities of the business property section include the discovery and assessment of taxable leased equipment. Taxpayers are required to report all leased equipment (i.e., taxable property in their possession but belonging to others) on an annual business property statement. On that statement, the assessor requests the name and address of the owner, the month and year of property acquisition, the acquisition cost, the location, and other relevant information.

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of such a lease, lessees may keep the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

When a lessee obtains ownership and retains possession of equipment at the end of the lease, the assessor should confirm that the lessee reports the property. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

We found that the assessor has an effective leased equipment assessment program.

Aircraft

For the 2001-02 assessment roll, the assessor enrolled 312 general aviation aircraft with a total assessed value of \$70,450,000, enrolled various certificated aircraft used for passengers and cargo valued at \$28,966,000, and exempted 39 historical aircraft.

General Aircraft

Section 5363 requires the assessor to determine the market values of general aviation aircraft according to standards and guidelines set by the BOE. Section 5564 requires the BOE to establish such standards and guidelines. Prior to the 1997 lien date, the BOE published Assessors' Handbook Section 587 as a guide. In Letter To Assessors (LTA) No. 97/03, the BOE notified assessors that it would cease publication of this handbook. The BOE directed assessors to use the *Aircraft Bluebook Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternate for planes not listed in the *Bluebook*.

The assessor uses the recommended *Bluebook* as the primary guide for valuing general aviation aircraft. In addition to the *Bluebook*, the assessor reviews information from airport managers and other counties to determine the value of the aircraft. Together with information from aircraft property statements, the values are manually computed and entered into the assessor's computer system. We found no problems with the assessment of general aircraft.

Certificated Aircraft

Certificated aircraft are described as aircraft used for commercial passenger service and transporting cargo. Section 401.15 establishes a methodology for valuing these aircraft and

sections 1150-1156 establish an allocation formula for their assessed values. One auditor-appraiser is charged with the responsibility for processing commercial aircraft property statements and reports filed by scheduled airlines and air cargo lines servicing Monterey County. We found that the assessor employs acceptable assessment practices to enroll commercial aircraft.

Historical Aircraft

Aircraft of historical significance are exempt from property taxation upon meeting certain conditions. Pursuant to section 220.5(d), aircraft of historical significance means any aircraft which is an original, restored, or replica of a heavier-than-air powered aircraft which is 35 years or older or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

To receive the exemption, the aircraft owner must annually submit a claim for exemption on or before the deadline of 5:00 p.m. on February 15. Upon the initial application for an exemption the assessor also collects a filing fee of \$35.

Along with the requirements listed above, aircraft of historical significance shall be exempt only if the assessee meets the following conditions:

- The assessee is an individual owner who does not hold the aircraft primarily for purposes of sale;
- The aircraft is not used for commercial purposes or general transportation; and
- The aircraft is available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

We found no problems with the aircraft assessment program.

Vessels

There are more than 7,300 pleasure vessels and 367 documented vessels on the 2001-02 Monterey County assessment roll.

Documented Vessels

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements of section 227. To qualify for the exemption, the vessel's owner must file an *Affidavit for 4 Percent Assessment of Certain Vessels* (form BOE-576-E). If the affidavit is not filed timely, the exemption is limited to only 80 percent of the 96 percent exemption.

We reviewed the assessor's procedures for assessing documented vessels and found no problems.

Pleasure Vessels

The primary sources for discovery of pleasure vessels are Department of Motor Vehicles (DMV) reports, marina lists, and referrals from other counties. Vessels are valued using data from the

BUC Used Boat Price Guide (BUC). If current or reliable information is not available in *BUC*, the auditor-appraiser uses the values of similar vessels.

We found the assessor has effective procedures for the processing, appraising, and assessment of vessels.

Animals

Monterey County has very few assessable animals. Most assessable animals are reported on form BOE-571-F, *Agricultural Property Statement*. Those animals include two or three rodeo brood stock, a few llamas, and some mobile bee apiaries. Discovery methods include intercounty communications, newspaper articles and advertisements, telephone yellow pages, business directories, animals reported on the *Agricultural Property Statement*, and audits of agricultural property. The assessor properly discovers, identifies and appraises assessable animals. The program is well administered.

Manufactured Homes

Manufactured homes should generally be classified as personal property. However, manufactured homes are treated differently than other personal property. Sections 5800 through 5842 govern how manufactured homes are valued and assessed. Unlike other personal property, manufactured homes are entered on the secured roll with an established base year value which is subject to an inflation factor each year. The taxes may be paid in two installments, and manufactured homes are subject to supplemental assessments upon a change in ownership or new construction. The taxable value of a manufactured home is the lower of its factored base year value or its full cash value on the lien date.

On the 2001-02 assessment roll, there were 1,530 manufactured homes in 74 manufactured home parks with a total value of \$38,834,532. Additionally, there were 638 manufactured homes on fee land with a taxable value of \$27,668,061, excluding land values.

One appraiser has the responsibility of assessing all manufactured homes located in manufactured home parks. Those homes are properly classified as personal property. The assessor uses the comparative sales approach to value and makes adjustments for in-park site value. That process also includes consideration of market value based on information published in a recognized value guide, e.g., the *National Automobile Dealers Association Manufactured Housing Appraisal Guide (NADA)*, as required by section 5803. The *NADA* estimate of value is considered in all appraisals of manufactured homes. The assessor considers other value-influencing factors including the addition of accessories such as awnings, porches, and skirting, as well as general overall condition of the manufactured home when considering the *NADA* value in conjunction with the comparative sales approach to value.

We reviewed 15 manufactured homes appraisal records. All were assessed in conformance with statutory guidance.

The assessor has a comprehensive and well-organized program for the discovery, appraisal, and assessment of manufactured homes.

APPENDICES

A. County Property Tax Division Survey Group

Monterey County Assessment Practices Survey

Chief, County Property Tax Division:

Charles Knudsen

Survey Program Director:

Michael Lebeau

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Specialist Property Appraiser

Survey Team:

James McCarthy
Simeon Okoroike
Robert Donay
Wes Hill
Ken King
Ancil Aydelott
David Barbeiro
Lawrence Gee
Marilyn Jones

Senior Petroleum and Mining Appraisal Engineer
Senior Petroleum and Mining Appraisal Engineer
Associate Property Appraiser
Associate Property Appraiser
Associate Property Appraiser
Associate Property Auditor Appraiser
Associate Property Auditor Appraiser
Associate Property Auditor Appraiser
Tax Technician II

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code

75.60. Allocation for administration.

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
 - (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
 - (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
 - (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The Monterey County Assessor's response begins on the next page. The BOE has no comments on the response.

MONTEREY COUNTY



OFFICE OF THE ASSESSOR

(831) 755-5035 - P.O. BOX 570 - COURTHOUSE - SALINAS, CALIFORNIA 93902
(MONTEREY PENINSULA RESIDENTS MAY DIAL 647-7719)

JOSEPH F. PITTA
ASSESSOR

September 9, 2002

RECEIVED

SEP 17 2002

County Property Tax Division
State Board of Equalization

Mr. Charles Knudsen, Chief
County Property Tax Division
State Board of Equalization
PO Box 942879
Sacramento CA 94279-0062

Dear Mr. Knudsen:

In accordance with Government Code Section 15645, the Assessor's response to the State Board of Equalization Assessment Practices Survey is attached.

The Monterey County Assessor's Office Team has continuously striven to improve our property tax administration processes and we welcome the Board's periodic reviews of our efforts. We appreciate the survey team's non-intrusive and courteous approach to gathering information needed to formulate their recommendations.

As in the past our goal continues to be fair administration of the property tax laws, in a cost effective manner, while providing the maximum level of service to our property owners.

Our efforts to improve our operation will be guided by the Boards recommendations.

Yours very truly,

JOSEPH F. PITTA
Assessor, Monterey County

JFP:pw

Enclosure

State Board of Equalization Assessment Practices Survey
Monterey County Assessor
September 9, 2002

Recommendation 1: Develop and maintain a policies and procedures manual.

Response: We agree. We are in the process of building a manual on our intranet.

Recommendation 2: Make only current BOE-prescribed forms available on the Assessor's website.

Response: We agree. We are creating a central forms library so that our forms can be more easily kept current.

Recommendation 3: Obtain fire reports from all local fire departments to aid in the discovery of property eligible for disaster relief.

Response: We agree. We have done this in the past but the departments have a tendency to quit providing reports after a while. We will renew our efforts to get the departments to report and we will continue our practice of scanning newspapers to discover properties eligible for relief.

Recommendation 4: Request that the Tax Collector forward the Assessor's copy of the annual racehorse tax returns as required by Rule 1045 (b).

Response: We agree. We will request our copies be forwarded to us.

Recommendation 5: Classify fixed irrigation pumps, fixed booster pumps, and in ground irrigation systems as improvements.

Response: The Board and Monterey County Assessor's have had longstanding discussions about this issue. We have begun to collect the information to implement this recommendation. In our opinion this is a revenue neutral and very large project, therefore it will not have top priority but will be considered as time and resources permit.

Recommendation 6: Deduct a capital replacement allowance for irrigation wells when appraising land restricted under CLCA contracts.

Response: We agree.

State Board of Equalization Assessment Practices Survey
Monterey County Assessor
September 9, 2002

Recommendation 7: Use correct land charge when valuing living improvements on CLCA properties.

Response: We agree. We have corrected errors discovered in the survey.

Recommendation 8: Deduct an appropriate charge for income generated by irrigation improvements when calculating CLCA land values.

Response: We agree.

Recommendation 9: Review properties owned by local government agencies to determine their taxability.

Response: We agree. Transfer clerks will be advised to check jurisdictions when assigning Use Codes to possible Section 11 properties.

Recommendation 10: Do not include an inflation factor when developing possessory interest capitalization rates.

Response: We agree. This practice has been discontinued.

Recommendation 11: Properly classify leasehold improvements.

Response: The classification of leasehold improvement is taken into account when computing value and making supplemental assessments. Improvement values have been combined on the tax roll for convenience sake only. We will explore making more convenient separate entries with our software vendor and we will review our mandatory audit lists to remove accounts which may have become mandatory because structural values have been included with fixture values.

Recommendation 12: Review all water company properties for potential double assessments.

Response: We agree. Mutual water company properties will be reviewed.

State Board of Equalization Assessment Practices Survey
Monterey County Assessor
September 9, 2002

Recommendation 13: Assesses all properties in a manner consistent with Rule 469 (e) (1) (B).

Response: We agree.

Recommendation 14: Return incomplete mineral property statements to taxpayers.

Response: We agree.

Recommendation 15: Apply the 10 percent penalty provided by Section 463 for late or non-filed annual property statements and production reports.

Response: We agree. Non-filers will be penalized.

Recommendation 16: Use only current BOE-prescribed forms.

Response: We agree.

Recommendation 17: Bring mandatory audit program to current status.

Response: We agree. We have had problems keeping auditors on staff. With time and successful recruiting we hope to correct this problem.

Recommendation 18: Obtain waivers for non-timely audits.

Response: We agree.

Recommendation 19: Use audit checklist for every audit.

Response: We agree.

Recommendation 20: Use Assessor's handbook Section 581, Equipment Index and Percent good Factors, as intended when valuing older machinery and equipment.

Response: For the time being, we will continue to follow the recommendation of the California Assessors' Association.

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Monterey County Assessor
September 9, 2002

Recommendation 21: Correctly identify and assess construction machinery and equipment.

Response: Neither the Business Property Statement nor the instructions for filing it alert the contractor to report new and used equipment separately. Returning the Property Statement under normal operating conditions during the filing season puts the taxpayer at risk of incurring late filing penalties. Unless the Business Property Statement or the instructions are changed we do not intend to implement this recommendation.